

## Interest Rate Reduction Refinance Loan

### Refinancing to reduce the interest rate on VA-guaranteed loans

#### BACKGROUND AND PURPOSE

The U.S. Department of Veterans Affairs' (VA) Interest Rate Reduction Refinance Loan (IRRRL) lowers the interest rate by refinancing an existing VA home loan. By obtaining a lower interest rate, the monthly mortgage payment should decrease. Eligible borrowers can also refinance an adjustable-rate mortgage (ARM) into a fixed-rate mortgage. No additional charge is made against the veteran's entitlement because of a loan for the purpose of an interest rate reduction. The Veterans' Disability Compensation and Housing Benefits Amendments of 1980 introduced the IRRRL program to assist veterans who wished to take advantage of low interest rates to reduce their monthly payments.

#### BORROWER CRITERIA

**Income limits:** There are no income limits on this program.

**Credit:** No credit review is performed.

**First-time homebuyers:** An IRRRL can only be made to refinance a property on which the borrower has already used his or her VA loan eligibility so it is not of use to first-time homebuyers. It must be a VA-to-VA refinance, and it will reuse the original entitlement.

**Occupancy and ownership of other properties:** No loan other than the existing VA loan may be paid from the proceeds of an IRRRL. The occupancy requirement for an IRRRL differs from other VA loans. For an IRRRL, the borrower need only certify that he or she previously occupied the home. Single-family homes, condominiums, and manufactured homes are all eligible.

**Special populations:** This program may only be used by veterans and, in some cases, their spouses. A new Certificate of Eligibility is not required. Borrowers are not required to show their Certificate of Eligibility to show the prior use of entitlement; an email confirmation procedure is available to lenders in lieu of a Certificate of Eligibility.

PROGRAM NAME	Interest Rate Reduction Refinance Loan Program (IRRRL)
AGENCY	U.S. Department of Veterans Affairs
EXPIRATION DATE	Not Applicable
APPLICATIONS	<a href="http://www.benefits.va.gov/homeloans/lenders.asp">http://www.benefits.va.gov/homeloans/lenders.asp</a>
WEB LINK	<a href="http://www.benefits.va.gov/homeloans/irrrl.asp">http://www.benefits.va.gov/homeloans/irrrl.asp</a>
CONTACT INFORMATION	Lenders interested in participating should contact their local VA office, which can be found at <a href="http://www.benefits.va.gov/HOMELOANS/contact_rlc_email.asp">http://www.benefits.va.gov/HOMELOANS/contact_rlc_email.asp</a>
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

**Special assistance for persons with disabilities:** Veterans with service-related disabilities are generally exempt from the funding fee (0.5 percent of the loan's value, or 1 percent for an unaffixed manufactured home).

## LOAN CRITERIA

**Loan limits:** The refinanced loan cannot exceed the existing VA loan plus any financed funding fee.

**Loan-to-value limits:** There are no LTV limits set by VA. The new loan amount may be more than the limits established by the secondary market. It is the lender's responsibility to ensure it has a marketable loan.

**Adjustable-rate mortgages:** Existing VA ARM loans may be refinanced into fixed-rate loans, but loans cannot be refinanced into ARMs under any circumstances.

**Down payment sources:** No down payment is required; however, an IRRRL may be done with "no money out of pocket" by including all costs in the new loan.

**Homeownership counseling:** Homeownership counseling is not required.

**Mortgage insurance:** Mortgage insurance is not required.

**Debt-to-income ratio:** No credit review is performed.

**Temporary interest rate buy downs:** Not allowed since the purpose is generally to lower the interest rate.

**Refinance:** The borrower may not receive any cash from the loan proceeds for an IRRRL unless it is for the purpose of making energy efficiency improvements.

**Interest rates and loan terms:** Terms are set by the lender.

**Funding fee:** The funding fee for an IRRRL is 0.5 percent of the loan's value, or 1 percent for an unaffixed manufactured home. Funding fees may be financed or paid in cash.

## POTENTIAL BENEFITS

Lenders can offer existing customers a product to lower their payments, which may generate further business for the bank.

VA loans offer competitive pricing and terms.

## POTENTIAL CHALLENGES

Despite the ease of becoming a VA-authorized lender, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

A limited pool of borrowers is eligible for this program due to the military service requirement.

## Potential Benefits

- Lenders can offer existing customers a product to lower their payments, which may generate further business for the bank.
- VA loans offer competitive pricing and terms.
- Loans originated with VA may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.
- Community banks, as supervised institutions, receive automatic authority to originate and close loans with the VA guarantee, making VA loans a relatively easy type of mortgage business to begin offering.

## Potential Challenges

- Despite the ease of becoming a VA-authorized lender, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- A limited pool of borrowers is eligible for this program due to the military service requirement.
- Lenders retain risk since they are responsible for any loss over 25 percent.
- IRRRL applications where a borrower is more than 30 days late on a mortgage payment must be approved directly by VA.

## SIMILAR PROGRAMS

- FHA Streamline Refinance
- Fannie Mae Refi Plus™/Home Affordable Refinance Program (HARP)
- Freddie Mac Relief Refinance<sup>SM</sup>/Home Affordable Refinance Program (HARP)

## RESOURCES

### General information

<http://www.benefits.va.gov/homeloans/irrrl.asp>

### General information on VA home lending programs

<http://www.benefits.va.gov/homeloans/lenders.asp>

### Interest Rate Reduction Refinance Loan Worksheet (VA Form 26-8923)

<http://www.vba.va.gov/pubs/forms/VBA-26-8923-ARE.pdf>

### Veteran/Service member's supplemental application for assistance in acquiring specially adapted housing (VA Form 26-4555c)

<http://www.vba.va.gov/pubs/forms/VBA-26-4555c-ARE.pdf>

### Verification of VA benefits form (VA Form 26-8937)

<http://www.vba.va.gov/pubs/forms/VBA-26-8937-ARE.pdf>